

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Magoffin County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$8,090 from the prior year, resulting in excess fees of \$8,090 as of December 31, 2004. Revenues increased by \$27,789 from the prior year and expenditures increased by \$19,699.

Debt Obligations:

Total debt principal as of December 31, 2004, was \$50,200. Future collections of \$50,200 are needed to pay all debt principal.

Capital lease principal totaled \$26,868 as of December 31, 2004. Future principal and interest payments of \$29,356 are needed to meet this obligation.

Report Comments:

- The Sheriff Should Eliminate The \$24,158 Deficit In His Fee Account
- The Sheriff Should Maintain Adequate Pledge of Securities To Protect Deposits
- The Sheriff Should Prepare Accurate Financial Reports And Maintain Required Financial Records
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were uninsured and uncollateralized on November 8, 2004, in the amount of \$26,837.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill W. May, Magoffin County Judge/Executive
The Honorable Randall Jordan, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Magoffin County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the Magoffin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Bill W. May, Magoffin County Judge/Executive
The Honorable Randall Jordan, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Eliminate The \$24,158 Deficit In His Fee Account
- The Sheriff Should Maintain Adequate Pledge of Securities To Protect Deposits
- The Sheriff Should Prepare Accurate Financial Reports And Maintain Required Financial Records
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Magoffin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 7, 2006

MAGOFFIN COUNTY
 RANDALL JORDAN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

| | | | |
|--|----|--------------|-----------|
| Federal Grant - Unlawful Narcotics Investigation Treatment And Education Corporation | | \$ | 43,805 |
| State Grant - Kentucky Law Enforcement Foundation Program Fund | | | 6,538 |
| State Fees For Services: | | | |
| Finance and Administration Cabinet | \$ | 35,116 | |
| Administrative Office Of The Courts | | <u>4,829</u> | 39,945 |
| Circuit Court Clerk: | | | |
| Sheriff Security Service | | 6,414 | |
| Fines and Fees Collected | | <u>4,975</u> | 11,389 |
| Fiscal Court | | | 29,950 |
| County Clerk - Delinquent Taxes | | | 3,813 |
| Commission On Taxes Collected | | | 127,931 |
| Other Fees On Taxes Collected: | | | |
| Add-On Fees | | 2,972 | |
| Advertising | | <u>770</u> | 3,742 |
| Fees Collected For Services: | | | |
| Auto Inspections | | 3,180 | |
| Accident and Police Reports | | 545 | |
| Serving Papers | | 11,110 | |
| Carrying Concealed Deadly Weapons Permits | | <u>3,680</u> | 18,515 |
| Other: | | | |
| Prisoner Transport and Travel | | 5,418 | |
| Forfeitures and Training | | 5,534 | |
| Surplus Car Auction | | 6,475 | |
| Miscellaneous | | <u>46</u> | 17,473.00 |
| Interest Earned | | | <u>14</u> |
| Total Revenues | | \$ | 303,115 |

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
 RANDALL JORDAN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries \$ 142,780

Employee Benefits-

Employer's Share Social Security 16,310

Contracted Services-

Advertising 401

Mobile Phone 1,720

Materials and Supplies-

Office Materials and Supplies 5,675

Uniforms 4,503

Radio 3,220

K-9 Expenses 270

Auto Expense-

Gasoline 11,790

Maintenance and Repairs 9,092

Other Charges-

Conventions and Travel 1,643

Dues 325

Postage 83

Juror Meals 556

Refunds 60

Bonds 2,284

Deputy Training 290

Withholding Penalties 1,769

Wage Garnishment 250

Unemployment Insurance 6,534

Carrying Concealed Deadly Weapons Permits 400

Miscellaneous 306 210,261

Debt Service:

Credit Card 2,067

Notes 33,689

Interest 5,416 41,172

Total Expenditures \$ 251,433

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
 RANDALL JORDAN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Less: Disallowed Expenditures

| | |
|---|------------|
| Penalties For Late Payment of Payroll Taxes | \$ 1,769 |
| Bank Note Principal For Calendar Year 2003 | 10,100 |
| Bank Note Interest For Calendar Year 2003 | 7,067 |
| Accounts Payable - Credit Card For Calendar Year 2003 | <u>878</u> |

| | |
|-------------------------------|------------------|
| Total Disallowed Expenditures | <u>\$ 19,814</u> |
|-------------------------------|------------------|

| | |
|------------------------------|-------------------|
| Total Allowable Expenditures | <u>\$ 231,619</u> |
|------------------------------|-------------------|

| | |
|--------------|-----------|
| Net Revenues | \$ 71,496 |
|--------------|-----------|

| | |
|-------------------------|---------------|
| Less: Statutory Maximum | <u>61,860</u> |
|-------------------------|---------------|

| | |
|-------------|----------|
| Excess Fees | \$ 9,636 |
|-------------|----------|

| | |
|----------------------------------|--------------|
| Less: Training Incentive Benefit | <u>1,546</u> |
|----------------------------------|--------------|

| | |
|---|------------------------|
| Balance Due Fiscal Court at Completion of Audit | <u><u>\$ 8,090</u></u> |
|---|------------------------|

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MAGOFFIN COUNTY
 RANDALL JORDAN, SHERIFF
 NOTES TO FINANCIAL STATEMENT
 December 31, 2004
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 8, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$26,837 of public funds uninsured and unsecured.

| | <u>Bank Balance</u> |
|---|---------------------|
| FDIC insured | \$ 100,000 |
| Collateralized with securities held by pledging depository institution in the county official's name | 1,135,000 |
| Uncollateralized and uninsured | <u>26,837</u> |
| Total | <u>\$ 1,261,837</u> |

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Note Payable

The Sheriff's office is liable for an unsecured note payable to Salyersville National Bank in the amount of \$50,200. The note was obtained for operating expenses of the Sheriff's office. The note matures upon demand and the interest rate is 6.25 percent. The Sheriff's office was in compliance with the terms of the agreement as of December 31, 2004.

Note 5. Lease

The Sheriff's office is committed to a lease agreement with Ford Motor Credit Company for a 2005 Ford Expedition. The agreement requires a monthly payment of \$625 for 48 months to be completed on December 5, 2008. The total principal balance remaining as of December 31, 2004, was \$26,868.

Note 6. Subsequent Event

On February 21, 2006 the Magoffin County Fiscal Court agreed to allow the Sheriff's office to use calendar year 2005 and 2006 excess fees to pay off the \$50,200 bank note referenced in Note 4 above.

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2004

Assets

Cash in Bank:

2004 Fee Account \$ 1,897

Deposits in Transit 46,197

Total Assets \$ 48,094

Liabilities

Paid Obligations:

Outstanding Checks \$ 48,094

Total Paid Obligations \$ 48,094

Unpaid Obligations For 2003:

Amount Due 2003 Tax Account 16,068

Unpaid Obligations For 2004:

Excess Fees Due County 8,090

Total Unpaid Obligations 24,158

Total Liabilities 72,252

Total Fund Deficit as of December 31, 2004 \$ (24,158)

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COMMENTS AND RECOMMENDATIONS

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Eliminate The \$24,158 Deficit in His Fee Account

On January 1, 2004 the Sheriff's restated deficit for 2003 was \$16,068, as of December 31, 2004 the Sheriff had a cumulative deficit of \$24,158. The deficit is due to unpaid liabilities in the amount of \$24,158. Tax commissions in the amount of \$16,068 were erroneously paid to the fee account twice, and should be returned to the 2003 tax account. Excess fees are also due the county in the amount of \$8,090 as a result of disallowed expenditures. Expenditures have been disallowed for the following: 1) penalties paid for late payment of withholding taxes, 2) principal and interest paid on personal bank notes of the Sheriff, and 3) accounts payable for calendar year 2003 paid from the 2004 fee account. The authority to disallow the above expenditures is derived from the decisions reached in the landmark case Funk v. Milliken. In this case, Kentucky's highest court ruled that expenditures must be ordinary and necessary and not personal in nature to be an allowable expenditure of the official's fee account. Additionally, prior year liabilities are unallowable as current year expenditures. We recommend the Sheriff deposit personal funds in the amount of \$24,158 to eliminate the cumulative deficit. We further recommend the Sheriff seek the assistance of the Governor's Office for Local Development if needed to resolve this matter.

Sheriff's Response:

The Sheriff's Department will work to correct the deficit in the fee account. We will work with the Magoffin County Fiscal Court, Magoffin County Attorney, and the Governor's Office For Local Development to correct this issue.

The Sheriff Should Maintain Adequate Pledge of Securities To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 8, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$26,837 of public funds uninsured and unsecured. We recommend the Sheriff increase his pledge of securities by an amount sufficient to adequately protect deposits.

Sheriff's Response:

The Sheriff's Department will contact our bank and request that our pledge of securities be raised to protect all deposits. This is the first time that our maximum balance has ever exceeded our pledge of securities. We will ensure it does not happen in the future.

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Prepare Accurate Financial Reports And Maintain Required Financial Records

Our audit disclosed the following conditions related to the preparation of accurate financial reports and maintenance of required financial records.

- Bank reconciliations were not prepared for every month throughout the year. Bank reconciliations should be prepared to detect bank errors and posting errors made to the ledgers. During our audit procedures it was necessary to make numerous adjustments in order to reconcile recorded receipts and expenditures to the Sheriff's bank account activity. We recommend the Sheriff prepare bank reconciliations on a monthly basis.
- The Quarterly Financial Report for the period ended December 31, 2004 was not prepared or filed with the Governor's Office for Local Development (GOLD) in a timely manner. Quarterly financial reports should be filed within 30 days following the end of each quarter. We recommend quarterly financial reports be prepared and submitted in a timely manner as required.
- The Sheriff should maintain detailed receipts and expenditures ledgers as required by the uniform system of accounts. Additional audit hours were necessary to determine the accuracy of the Sheriff's financial statement due to the absence of detailed account information. We recommend the Sheriff maintain detailed ledgers in order to prepare an accurate financial statement and comply with the uniform system of accounts.
- The Sheriff did not record gross salaries paid in the expenditure ledger. During our payroll testing procedures we noted the Sheriff posted net salaries to the expenditure ledger. The following related withholdings were posted to the expenditure ledger individually: 1) retirement, 2) federal taxes, 3) state taxes, 4) county and city taxes, and 5) child support garnishments. A substantial amount of audit hours were spent making reclassifications in order to determine gross salaries paid. Gross salaries should be reported in order to demonstrate compliance with limitations established by the Fiscal Court for deputies' salaries. We recommend the Sheriff record gross salaries paid in the expenditure ledger.

Sheriff's Response:

These items have all been taken into consideration and are all corrected. Bank reconciliations are prepared each month. Also, quarterly reports are prepared on a timely basis and filed on time with G.O.L.D. The Sheriff's Department now has a detailed receipts and expenditures ledger. Also, salaries are now posted by their gross instead of net totals.

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare the bank reconciliation to the checkbook balance. Any differences should be investigated and reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should monitor and supervise the assigned responsibilities of his staff.

County Sheriff's Response:

The Sheriff will take steps suggested by the auditor's office to alleviate this problem. The Sheriff will oversee daily deposits and examine all checks before they are signed and mailed. Also, if the budget allows, the sheriff will employ additional staff to offset the problem.

PRIOR YEAR:

- The Sheriff Should Eliminate The Deficit In His Official Fee Account
- The Sheriff Should Prepare Accurate Financial Reports And Keep Accurate Financial Records
- The Sheriff's Office Lacks Adequate Segregation of Duties

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill W. May, Magoffin County Judge/Executive
The Honorable Randall Jordan, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Magoffin County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated March 7, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Magoffin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The \$24,158 Deficit In His Fee Account
- The Sheriff Should Maintain Adequate Pledge of Securities To Protect Deposits
- The Sheriff Should Prepare Accurate Financial Reports And Maintain Required Financial Records

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 7, 2006

